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SUBJECT: VIETNAM ECONOMIC HIGHLIGHTS: FARMERS BENEFIT FROM HIGHER FOOD PRICES, SUBSIDIES TO REMAIN, FOSSIL FUEL EXPORTS DECLINE

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¶11. This cable is part of an ongoing series on developing economic stories in Vietnam.

RISING FOOD PRICES INCREASE AVERAGE WELFARE

¶12. Rising food prices have benefited Vietnam's average household welfare and helped push down further the poverty rate, according to a June study released by the University of Minnesota. Vietnamese farmers have been able to reap benefits from higher international prices for the export commodities that they grow, according to the Minnesota study, "Impacts of Rising Food Prices on Poverty and Welfare in Vietnam." The paper showed that a 10 percent rise in food prices results in a 1.7 percent increase in average household welfare and a 0.6 percentage point decrease in the poverty rate. The foodstuff portion of Vietnam's consumer price index has risen 31.9 during the first half of 2008 compared with the same period last year.

Over 70 percent of Vietnamese households are entirely or partly dedicated to farming, and these same households make up the overwhelming majority (90 percent) of Vietnamese poor.

DECLINING ENERGY PRODUCTION, RISING DEMAND

¶13. Vietnam's production of crude oil, natural gas, and coal is declining while demand is rising. State oil company PetroVietnam's crude oil output is down 15 percent this year, to 7.2 million tons, and its natural gas output is down 4.7 percent, to 3.6 billion cubic meters. Despite this, revenues are up 55 percent this year to \$5.72 billion, accounting for 19.3 percent of Vietnam's total export turnover, according to PetroVietnam Chairman Dinh La Thang. For coal, Vietnam is likely to turn from a net exporter into an importer faster than it expected. State-owned mining company Vinacomin anticipates that domestic demand for power generation will require Vietnam to import 34 million tons of coal in 2015, 144 million tons in 2020, and 228 million tons in 2025. Vietnam is currently a key supplier of coal to China and Japan. On July 4, the Government of Vietnam (GVN) announced that it would cut coal exports this year by more than 32 percent to about 22 million tons in order to meet local demand.

GVN ABANDONS PHASING OUT SUBSIDIES IN 2008

¶14. On July 9, the GVN announced that it had ruled out price increases for petrol, diesel, power, coal, steel, and fertilizer for the remainder of the year. The decision reverses a GVN pledge to

phase out subsidies on fuel and other goods by June 2008. The GVN will continue to cap gasoline prices at \$3.40 per gallon, and will reimburse the state-owned retailers at the end of the year, as it has done in previous years.

SLOWEST ECONOMIC GROWTH IN 7 YEARS

¶5. Vietnam's economy grew 6.5 percent in the first half of the year, the country's slowest growth rate in seven years. Factors contributing to the lower growth included the effect of the cooling of the stock and property markets on spending by consumers and investors as well as the tightening of credit (the latter as part of Government efforts to tame inflation by hiking interest rates).

MORE JOBS, MORE STRIKES, NOT ENOUGH SKILLS

¶6. Vietnam's economy created more than 780,000 new jobs in the first half of 2008, but employers remain concerned about the lack of skilled labor and the rise in labor strife, with twice as many strikes this year as during the same period last year. According to the GVN, 70 percent of the labor pool is unskilled and only nine percent of available employees have higher education. Even many skilled workers are not properly qualified. For example, a study earlier this year by the Vietnam Union of Science and Technology Associations found that just 138 out of approximately 500,000 engineers in Vietnam are properly qualified. Meanwhile, Vietnam has experienced 330 "illegal" strikes in the first half of the year, a rate that will almost certainly exceed the approximately 400 strikes that took place in all of 2007. Foreign investors have asked the GVN and union leaders to talk and train the workforce about pursuing mediation efforts instead.

FLYING HIGH DESPITE ECONOMIC CONCERNs

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¶7. Two privately-owned airlines in Vietnam are expanding their fleets, while Danang International Airport plans to increase capacity six-fold by 2025. Earlier this year, Viet Jet Air (VJA) leased two Boeing 737-700s for seven years and is preparing to lease a third. Now, VJA plans to lease or buy as many as 20 more airplanes and hire up to 400 employees. Vietnam's second privately-owned startup, Air Speed Up, also plans to expand its fleet with the purchase of ten Boeing 737s. VJA is already flying, while Air Speed Up hopes to begin flights in September, both servicing domestic routes. Meanwhile, the Danang International Airport, which handles one million passengers per year, hopes to be able to handle four million passengers by 2015 and six million by ¶2025.

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